Taking FP&A transformation to the next level

Tapping new value by redesigning the organization and service delivery model

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In an increasingly complex global marketplace, most financial planning and analysis (FP&A) organizations are under pressure to improve their effectiveness, efficiency, insights, and strategic alignment with the business.

They are being challenged to lead critical initiatives such as improving analytics and decision support for their business partners and collaborating with sales and operations to improve their integrated business planning. As a result, many of these organizations are striving to improve their company’s capabilities by transforming their technology and processes. In fact, in a recent KPMG LLP (KPMG) survey, senior finance executives said FP&A is the financial area they are most likely to improve over the next two years.

But these efforts frequently stop short of two other critical dimensions of an effective operating model: the organizational design and service delivery model. That is often because FP&A, as the part of finance that adds the most value to the business, may be considered hands-off from organizational resizing, shared services, and other such approaches that have been used for more transactional processes.

Leading FP&A organizations, however, are getting more value from their transformations by also reevaluating their organizational design and service delivery. As a result, they are going beyond cost reductions from process standardization and automation to tap even more savings—while also improving support to the business.

### FP&A savings

**Going beyond process and technology**

<table>
<thead>
<tr>
<th>Lever</th>
<th>Typical cost reduction</th>
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<tbody>
<tr>
<td>Process redesign and standardization</td>
<td>5–15%</td>
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<tr>
<td>Process automation and technology enablement</td>
<td>5–15%</td>
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<tr>
<td>Labor arbitrage</td>
<td>20–50%</td>
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<tr>
<td>Organizational scale and span of control</td>
<td>10–20%</td>
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Driving effectiveness and efficiency

When it comes to organizational design, leading FP&A organizations realize that it goes hand-in-hand with process and technology: When there is a change in one dimension, it should result in a change in the other.

For example, if some tasks are eliminated through the automation of a process, that is an opportunity to reassess spans of control, set target improvements and resize the FP&A organization accordingly. It may also be cause to restructure the roles of some FP&A employees, potentially freeing them up to focus on analytics and integrated business planning improvements that help business partners make better decisions.

In evaluating service delivery, similarly, leading FP&A organizations are centralizing select services—sometimes in offshore locations—to further reduce costs while improving scale and process efficiency. Notably, FP&A skills in lower-cost countries are becoming commensurate with those of developed countries, which is enabling seamless integration.

Improving effectiveness and efficiency of the FP&A operating model

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Cost-reduction levers</th>
<th>Effectiveness levers</th>
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<tbody>
<tr>
<td>Organization design</td>
<td>• Resizing guidelines</td>
<td>• Redesigned job scope</td>
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<td></td>
<td>• Increased spans of control</td>
<td>• Global standards for organization structure and job descriptions</td>
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<td></td>
<td>• Workload balancing</td>
<td>• Clearly defined roles and responsibilities of business partners</td>
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<td>Service delivery management</td>
<td>• Labor arbitrage</td>
<td>• Service-level and operational-level agreements</td>
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<td></td>
<td>• Global/regional support centers</td>
<td>• Consistent service-level measures</td>
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<td>• Rationalized support to business partners</td>
<td>• Standard key performance indicators</td>
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Managing risk through a structured approach

As the primary driver for financial planning, forecasting, reporting, and business analysis, FP&A plays a critical role in the organization and with their business partners.

Therefore, it is important to manage the risks associated with transformation, taking a structured approach from strategy through implementation:

Service delivery
Should work be performed locally, regionally, or globally? Through shared or retained services? In considering the best service delivery model for FP&A, leading organizations establish design principles early on to guide their transformation, helping them make choices in keeping with their future-state vision.

For example, these organizations decompose end-to-end processes into tasks and activities—and then choose the most effective way to deliver the work, based on cost and other predetermined criteria. Activities may be best suited for global or regional shared services when FP&A can accumulate business and functional knowledge without being co-located with business partners. Activities considered for centralization may include:

- Preparation of first-pass financial plans, forecasts, updates, and changes
- Preparation of first-pass financial statements and management reporting packages
- Preparation of first-pass commentary and variance explanations
- Preparation and issue of standard reports
- Gathering and tracking metrics
- Support for ad hoc reporting and analysis

Beyond cost, it’s critical to ensure the FP&A service delivery model aligns to the needs of the business and that they are meeting their business partnering service levels. For example, if a global company is moving sales, marketing, and supply chain services into regional clusters to more efficiently and effectively support its subsidiaries, then FP&A arguably should migrate their business partnering and business planning services to those clusters as well. Meanwhile, if a company has a complex mix of products, services, vendors, and customers, that business model may require higher levels of on-the-ground support than simpler business models.

Another consideration: Activities are best suited for centralization when processes and technology have been standardized or harmonized. A lack of standardization or harmonization does not eliminate the potential for centralized services, but it could reduce the scope.

Organizational redesign
As with the service delivery model, it is important to establish sound principles for design of the FP&A organization, ensuring the right balance of improvements in effectiveness and efficiency.

One such principle is ensuring that the organization is right-sized—locally, regionally, and globally—with structures and roles that are designed to reduce cost and improve service levels. Spans of control, likewise, should be optimized to improve the cost structure while allocating work to the appropriate level of the workforce. And as jobs are defined, it is important to account for required skill sets and technical competencies.

Resizing the FP&A organization is critical to generating savings but, if done incorrectly, it can have many unintended consequences. For example, overestimating resource requirements can increase costs, while underestimating them can reduce service quality. Moreover, many FP&A organizations are striving to build expertise to provide better decision support to business partners, but all too often, job roles are too broad, with employees performing entirely too many tasks to build expertise in any one area.

To mitigate these kinds of sizing risks, it is critical for FP&A management to understand the work drivers, levels of complexity and size/scale considerations across the company’s subsidiaries and business units. Many companies have found that having a predefined set of complexity and scale factors can be useful in categorically estimating FP&A support requirements within subsidiaries and business units across the organization. Examples of complexity drivers include customer channel complexity; number of entities; breadth and types of products and services; number and types of customers and vendors; and supply chain complexity, including volume of distribution centers and plants. Scale factors are typically based on the size of the different subsidiaries and/or business units and can be measured by revenue, headcount, number of business partners supported, etc.
Managing risk through a structured approach

Another important part of organizational design is validating the distribution of work articulated in the service delivery model. For example, during the design of specific processes, an organization will make certain assumptions about work levels and where the work will be performed. However, when it comes to organizational design, that distribution of work may need to be adjusted based on the view of processes and locations across the entire FP&A organization. For instance, an organization may determine upon further analysis that there is not enough of a certain kind of work to justify a full-time equivalent, so that work may be instead moved to another resource in another location.

In designing the new FP&A organization, leading companies are using a combined top-down and bottom-up approach. At the top, the focus is on defining the service delivery principles, design principles, target structures, and sizing guidelines. From the bottom, the focus is on building out and validating the sizing, structures, and job descriptions. The bottom-up approach should be directly linked to detailed process designs based on key sizing inputs, such as volumes and task complexity.

Critical success factors for the transition to a new FP&A operating model

The following principles help mitigate risk and enable success in the development of organizational design and service delivery models:

**Program management and governance**
- The vision is clearly articulated and understood.
- Business partners and finance function leads offer visible support.
- There is a clear understanding of the change impact, along with change management and communication plans.
- The organization has processes for tracking progress and benefits.

**Design and implementation**
- Finance and business partners are aligned on future-state processes, organization, and service delivery.
- Future-state roles are defined based on the skills and competencies required to achieve the vision—not based on the current organization.
- Design and implementation account for varying scale, sizing, and other complexities across local business models.

**Program staffing**
- The transformation team has sufficient representation and share of voice across FP&A and cross-functional stakeholders.
- The effort is driven by a dedicated set of core resources; it is not treated as an “after-hours assignment.”
Case studies

Leading FP&A organizations are reaping benefits by transforming their organizational design and service delivery models:

Healthcare

**Challenge:** A large U.S. healthcare provider had various FP&A processes, tools, and data warehouses scattered across more than 200 facilities. Organizational structures and reporting relationships were also fragmented, and the organization faced issues related to manual processes, data integrity, and conflicting key performance indicators (KPIs).

**Solution:** To significantly improve efficiency and effectiveness, the company redesigned its FP&A organization in conjunction with a technology implementation to improve planning, forecasting, and reporting. The company improved span of control, transitioned select FP&A activities to regional support centers, standardized KPIs and reports, and established a center of excellence and centralized governance model to sustain the benefits from the transformation.

**Results:** The organization reduced costs by 25 percent while improving visibility into organizational performance and enabling the business to adapt more quickly to changing conditions.

Consumer products

**Challenge:** A global consumer products company faced high costs in its finance organization due to decentralized operations, low span of control, underutilized labor arbitrage, lack of process standardization across subsidiaries, and ineffective technology that required manual intervention.

**Solution:** To reduce costs and improve effectiveness, the FP&A organization sought to deliver services through the most efficient structure. The company standardized and simplified end-to-end processes, created an integrated information technology framework, redesigned the organization, migrated some activities to shared service centers, and otherwise optimized the global delivery of services.

**Results:** The organization is in the process of reducing its annual finance costs by more than 30 percent, better positioning the company for growth. Furthermore, the new model enabled the FP&A organization to better collaborate with commercial teams to drive faster, smarter decisions, while providing early visibility into operational risks and opportunities.

Now is the time to act

In today’s uncertain marketplace, leading companies are relying on FP&A to point them in the right direction—by providing more accurate forecasting at a lower cost. An effective approach to FP&A transformation goes beyond process and technology improvements to also include a redesigned organization and service delivery model, which are aligned with the business, guided by leadership and supported by sound risk management. With this kind of transformation, leading FP&A organizations are helping their companies manage cost while driving the business strategy.
Why KPMG?

KPMG provides financial management advisory services to the world’s largest companies. We deliver fully integrated solutions along with services in risk management, IT, HR, transactions, restructuring, audit, and tax supported by global experience across industries, functions, and technologies. Our approach to FP&A transformation includes the development of a clear vision, process design, metrics, and functional requirements to integrate and standardize a future-state design across the business.

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